HOUSING MARKET INFORMATION

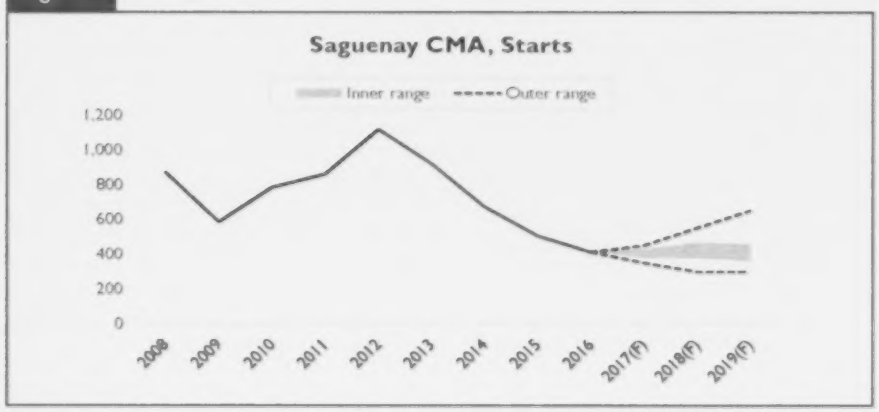
HOUSING MARKET OUTLOOK

Saguenay CMA*

CANADA MORTGAGE AND HOUSING CORPORATION

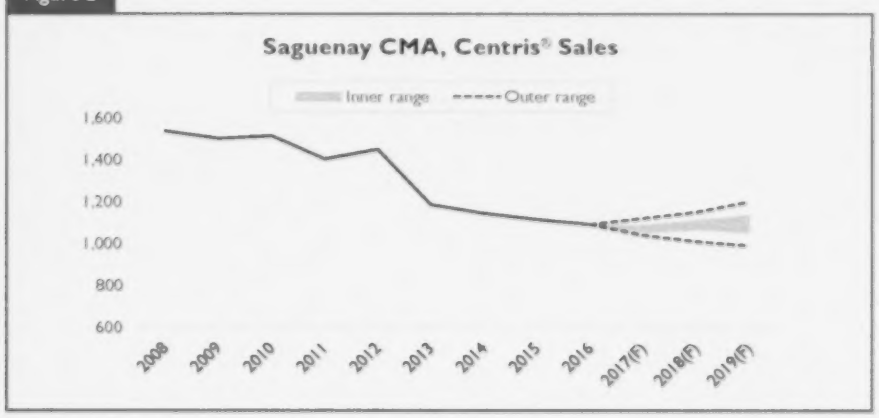
Date Released: Fall 2017

Figure 1



Source: CMHC (F): CMHC Forecast

Figure 2



Source: QFREB by the Centris® System; (F): CMHC Forecast

Highlights[1]

- The level of activity on the new home market will stabilize this year and then remain steady in 2018 and 2019. Housing starts will range between 380 and 470 units in 2018 and between 360 and 460 units in 2019.
- Home sales will rise slightly from now until 2019, but the existing home market will continue to favour buyers.
- The rental housing vacancy rate will decrease progressively from now until 2019, falling from 7% to 6%.
- The economic environment is gaining some momentum, which will further boost housing demand in the area. Population growth will however remain rather weak.

New home market: activity to stabilize

After four years of relatively marked decreases, housing starts in the Saguenay census metropolitan area (CMA) will stabilize in 2017 and then stay at similar levels until 2019, hovering around 400 units. Total starts will therefore remain below the average of the last 10 years[2].

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

[2] Total annual housing starts in the Saguenay CMA averaged at 740 units from 2007 to 2016.

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The stronger job market and gradual decrease in inventories of unabsorbed new units are among the factors that will be favourable to residential construction. However, the increase in the rate of housing starts will continue to be limited by the relatively abundant supply on the existing home market, the high vacancy rate for rental apartments, as well as slow population and household growth. Overall, activity on the new home market will remain rather stable from now until 2019, for both single-detached homes and multi-unit housing.

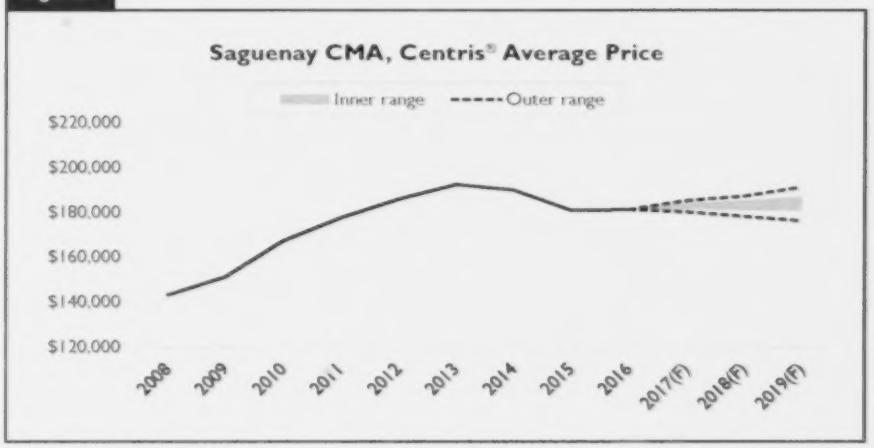
The number of housing starts could however be higher than expected if any major multi-unit housing projects were to get under way over the next two years, particularly in the seniors' housing segment. Conversely, there could be fewer starts than anticipated, should employment in the area weaken further.

Existing home market: conditions to keep favouring buyers

The gradual slowdown in the rate of transactions on the resale market in the Saguenay CMA has continued this year. The impact of a stronger job market will be felt more next year. Demand on the existing home market should then be stronger but will however remain limited by weak population growth, especially among young people aged 25 to 34. The increase in mortgage rates should also contribute to lowering housing demand to some extent. Centris® sales should therefore fall again slightly in 2017 and then rise marginally in 2018 and 2019.

Given the large supply of properties for sale relative to the demand, market conditions will continue to favour buyers from now until 2019 for all housing types (single-family houses, condominiums and plexes).

Figure 3



Source: QFREB by the Centris® System; (F): CMHC Forecast

As a result, the growth in the average Centris® price will be rather weak. The average price will range between $181,000 and $184,000 in 2017 (it was $180,987 in 2016) and between $180,500 and $187,000 from now until 2019.

Rental market: some tightening on the horizon

Given the relatively high vacancy rate in the area, conventional rental housing construction has adjusted downwards in recent years. This adjustment will continue, such that the growth in housing supply will remain moderate this year and over the next two years. During this period, demand for rental apartments will however be stimulated by the return of some older households to the rental market and by the retention of more young people thanks to the slightly better economic environment. Consequently, the rental market should tighten modestly and gradually, with the vacancy rate decreasing from 7% in 2016 to 6% in 2019. The average rent will experience a small increase over this horizon.

Economic trends: slightly more favourable environment

The economic environment in the Saguenay CMA has been gaining momentum since the beginning of the year, such that 2017 will see the first increase in total jobs in four years (+2.5% over 2016). Employment in the manufacturing and construction sectors is holding steady, and the service sector is tending to recover. Investments in the area are gradually picking up, supported mainly by public capital expenditures. However, this improvement in the environment will not make up for the decline in employment of recent years.

There is still a lot of uncertainty surrounding the start, from now until 2019, of some major projects related to aluminum and natural resources

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development, which would boost economic activity. The diversification of the regional economy will still continue, including through the search for new markets, and should help support the job market. Employment should therefore grow modestly next year (+0.5% in 2018) and then remain rather stable in 2019.

In this context, net migration in the area, which has been negative for the past three years, should pick up slightly. But this will contribute only to a small increase in the population (+0.1% per year until 2019). As a result, from now until 2019, housing demand in the Saguenay CMA will be supported by a slightly more favourable economic environment but will remain limited by weak population growth.

Mortgage rates are expected to rise gradually over the forecast horizon

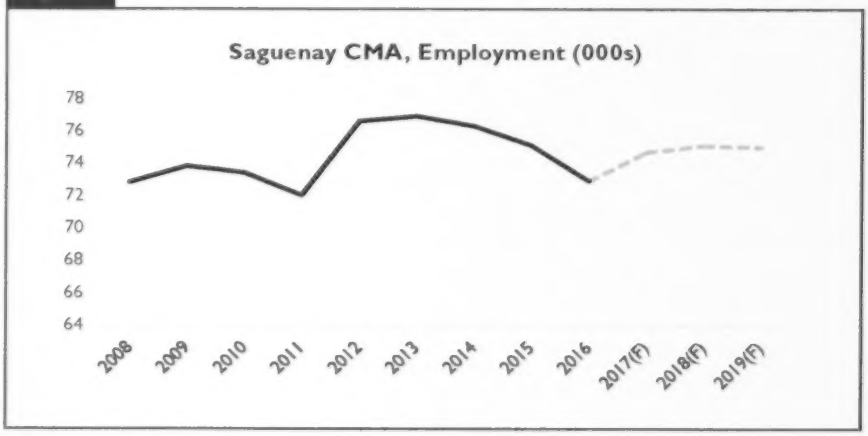
Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Figure 4

Source: CMHC; (F): CMHC Forecast
*: Private structures with three or more apartments

Figure 5



Source: Statistics Canada; (F): CMHC Forecast

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Saguenay CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	268	205	190	180	205	180	200	175	190
Multiples	404	300	222	200	225	200	270	185	270
Starts - Total	672	505	412	380	430	380	470	360	460
Resale Market									
Centris® Sales	1,144	1,115	1,091	1,050	1,090	1,065	1,115	1,050	1,140
Centris® Average Price($)	189,724	180,696	180,987	181,000	184,000	180,500	185,000	180,500	187,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	4.2	7.1	7.0	6.5	6.3	6.0
Two-bedroom Average Rent (October)($)	595	598	587	600	605	610
Economic Overview						
Population	160,249	159,996	159,669	159,800	159,950	160,100
Annual Employment Level	76,300	75,100	72,900	74,700	75,100	75,000

QFREB by Centris®. The Centris® system contains all the listings of Québec real estate board.
Rental Market: Privately initiated rental apartment structures of three units and over.
The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.
It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.
Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Centris®, CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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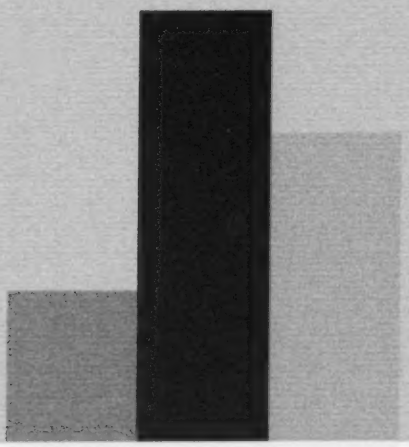

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